

**TIRNO-94-D-00028, TIRNO-95-D-00048,
TIRNO-95-D-00067, TIRNO-00-D-00023,
TIRNO-95-D-0067, TIRNO-98-R-00001,
and TIRNO-99-D-0001**

**Report on Examination of Direct
and Indirect Costs and Rates for
Fiscal Year Ended December 22, 2000**

February 2003

Reference Number: 2003-1C-052

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 25, 2003

MEMORANDUM FOR DAVID A. GRANT
DIRECTOR OF PROCUREMENT
INTERNAL REVENUE SERVICE

A handwritten signature in cursive script that reads "Daniel R. Devlin".

FROM: Daniel R. Devlin
Assistant Inspector General for Audit (Headquarters Operations
and Exempt Organizations Programs)

SUBJECT: TIRNO-94-D-00028, TIRNO-95-D-00048, TIRNO-95-D-00067,
TIRNO-00-D-00023, TIRNO-95-D-0067, TIRNO-98-R-00001,
and TIRNO-99-D-0001 Report on Examination of Direct and
Indirect Costs and Rates for Fiscal Year Ended
December 22, 2000 (Audit #200310002.020)

The Defense Contract Audit Agency (DCAA) has examined the contractor's United States Federal Government Group's April 1, 2002, certified final indirect cost rate proposal and related books and records for reimbursement of Fiscal Year 2000 incurred costs. The purpose of the examination was to determine the allowability and allocability of direct and indirect costs and recommended Contracting Officer determined indirect cost rates for December 25, 1999, through December 22, 2000. The proposed rates apply primarily to flexibly-priced contracts.

The DCAA questioned claimed general and administrative (G&A) costs. The questioned costs are the result of the contractor overstating indirect labor and overhead allocations within the G&A pool. Also, the DCAA applied an upward adjustment to the G&A base. This upward adjustment is the result of the contractor understating overhead and commercial costs that are part of the G&A base.

The DCAA stated that except for the qualification discussed below, the contractor's proposed indirect rates are acceptable as adjusted by their examination. Additionally, claimed direct costs are acceptable and are provisionally approved pending final acceptance.

The DCAA has not received the results of the requested assist examinations for subcontract costs. Therefore, the DCAA qualified its audit report because these examinations may disclose additional questioned costs.

The information in this report should not be used for purposes other than that intended without prior consultation with the Treasury Inspector General for Tax Administration regarding its applicability.

If you have any questions, please contact me at (202) 622-8500 or John R. Wright, Director at (202) 927-7077.

Attachment

NOTICE:

The Office of Inspector General for Tax Administration has no objection to the release of this report, at the discretion of the contracting officer, to duly authorized representatives of the contractor.

The contractor information contained in this report is proprietary information. The restrictions of 18 USC 1905 must be followed in releasing any information to the public.

This report may not be released without the approval of this office, except to an agency requesting the report for use in negotiating or administering a contract with the contractor.

The TIGTA seal was removed due to its size.